

STARMONT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Starmont Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Loren Johnson	President	2007
Martin Hanson	Board Member	2007
Laura Morine	Board Member	2008
Tina Pech	Board Member	2009
Dennis Kleve	Board Member	2009

Board of Education (After September 2007 Election)		
Laura Morine	President	2008
Kevin Powell	Board Member	2010
Jerry Flexsenhar	Board Member	2010
Tina Pech	Board Member	2009
Dennis Kleve	Board Member	2009

School Officials

Gary Stumberg	Superintendent	2008
Vicki Vanter	Board Secretary/ Business Manager	2008
Brian L. Gruhn	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Starmont Community School District, Arlington, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Starmont Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

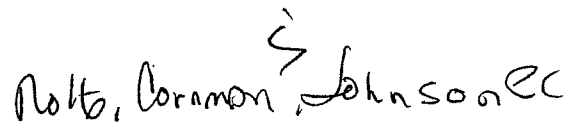
In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2009 on our consideration of Starmont Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Starmont Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style. The "N" is large and loops around the "olte". The "C" for Cornman is also large and loops around the "ornman". The "J" for Johnson is large and loops around the "ohnson". The "PC" is written in a smaller, more upright script at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Starmont Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,222,352 in fiscal 2007 to \$6,409,557 in fiscal 2008, while General Fund expenditures decreased from \$7,166,404 in fiscal 2007 to \$7,147,677 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$472,723 in fiscal 2007 to a deficit fund balance of \$265,397 in fiscal 2008, a 156.14% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in the amounts of state and local revenues received by the District. The increase in expenditures was due primarily to the increase in the instruction functional area.
- The District's solvency ratio as of June 30, 2008 was -4.85% as compared to 7.14% at June 30, 2007.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Starmont Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Starmont Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Starmont Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Starmont Community School District Annual Financial Report

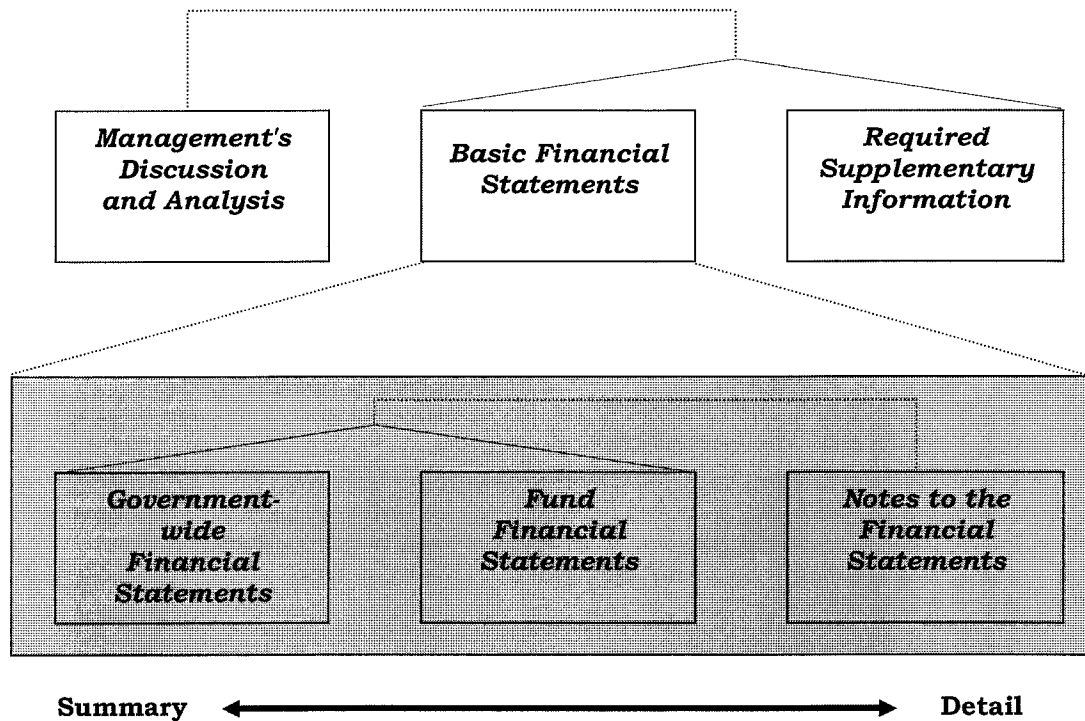


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses, e.g., food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 6,330,428	4,978,947	51,664	23,329	6,382,092	5,002,276	27.58%
Capital assets	4,895,530	4,892,627	16,605	20,794	4,912,135	4,913,421	-0.03%
Total assets	11,225,958	9,871,574	68,269	44,123	11,294,227	9,915,697	13.90%
Long-term obligations	1,201,330	1,433,928	0	0	1,201,330	1,433,928	-16.22%
Other liabilities	5,755,129	3,808,834	22,734	5,282	5,777,863	3,814,116	51.49%
Total liabilities	6,956,459	5,242,762	22,734	5,282	6,979,193	5,248,044	32.99%
Net assets:							
Invested in capital assets, net of related debt	3,945,530	3,492,627	16,605	20,794	3,962,135	3,513,421	12.77%
Restricted	708,209	714,157	0	0	708,209	714,157	-0.83%
Unrestricted	(384,240)	422,028	28,930	18,047	(355,310)	440,075	-180.74%
Total net assets	\$ 4,269,499	4,628,812	45,535	38,841	4,315,034	4,667,653	-7.55%

The District's combined net assets decreased by 7.55%, or \$352,619, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$5,948, or 0.83% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$795,385, or 180.74%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 507,366	485,661	183,991	181,209	691,357	666,870	3.67%
Operating grants and contributions and restricted interest	986,494	857,737	158,089	150,347	1,144,583	1,008,084	13.54%
General revenues:							
Property tax	2,705,948	2,693,450	0	0	2,705,948	2,693,450	0.46%
Local option sales and service tax	410,921	430,242	0	0	410,921	430,242	-4.49%
Unrestricted state grants	2,855,242	2,697,618	0	0	2,855,242	2,697,618	5.84%
Other	120,559	204,941	277	205	120,836	205,146	-41.10%
Total revenues	<u>7,586,530</u>	<u>7,369,649</u>	<u>342,357</u>	<u>331,761</u>	<u>7,928,887</u>	<u>7,701,410</u>	<u>2.95%</u>
Program expenses:							
Governmental activities:							
Instruction	5,348,556	5,071,914	6,702	8,697	5,355,258	5,080,611	5.41%
Support services	1,974,193	2,183,862	4,341	864	1,978,534	2,184,726	-9.44%
Non-instructional programs	0	0	324,620	334,822	324,620	334,822	-3.05%
Other expenses	623,094	648,214	0	0	623,094	648,214	-3.88%
Total expenses	<u>7,945,843</u>	<u>7,903,990</u>	<u>335,663</u>	<u>344,383</u>	<u>8,281,506</u>	<u>8,248,373</u>	<u>0.40%</u>
Change in net assets	(359,313)	(534,341)	6,694	(12,622)	(352,619)	(546,963)	-35.53%
Net assets beginning of year	<u>4,628,812</u>	<u>5,163,153</u>	<u>38,841</u>	<u>51,463</u>	<u>4,667,653</u>	<u>5,214,616</u>	<u>-10.49%</u>
Net assets end of year	<u>\$ 4,269,499</u>	<u>4,628,812</u>	<u>45,535</u>	<u>38,841</u>	<u>4,315,034</u>	<u>4,667,653</u>	<u>-7.55%</u>

In fiscal 2008, property tax and unrestricted state grants account for 73.30% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$7.93 million of which \$7.59 million was for governmental activities and \$.34 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 2.95% in revenues and a 0.40% increase in expenses. The increase in expenses was related to an increase in expenses in the instruction function.

Governmental Activities

Revenues for governmental activities were \$7,586,530 and expenses were \$7,945,843.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 5,348,556	5,071,914	5.45%	4,145,929	3,989,139	3.93%
Support services	1,974,193	2,183,862	-9.60%	1,969,276	2,178,357	-9.60%
Other expenses	623,094	648,214	-3.88%	336,778	393,096	-14.33%
Totals	<u>\$ 7,945,843</u>	<u>7,903,990</u>	<u>0.53%</u>	<u>6,451,983</u>	<u>6,560,592</u>	<u>-1.66%</u>

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$507,366.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$986,494.
- The net cost of governmental activities was financed with \$2,705,948 in property tax, \$410,921 in local option sales and services tax, \$2,855,242 in unrestricted state grants and \$81,153 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$342,357 and expenses were \$335,663. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Starmont Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$577,378 compared to last year's ending fund balances of \$1,173,182. However, the primary reason for the decrease in combined fund balances in fiscal 2008 is due to decrease in the General Fund balance during fiscal 2008.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors: The District had an increase in revenues and an increase in expenditures. However, the increase in revenues was not enough to offset the increase in expenditures, thus causing the General Fund Balance to decrease.
- The Capital Projects Fund increased from a fund balance of \$279,708 to \$409,172 due mainly to a decrease in expenditures as compared to fiscal 2007. The Capital Projects Fund was also able to contribute to the reduction of the District's general obligation bond indebtedness through a transfer to the Debt Service Fund of \$100,000.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$38,841 at June 30, 2007 to \$45,535 at June 30, 2008, representing an increase of 17.23%.

During the fiscal 2007 year, the District started a Day Care Fund. Revenues totaled \$6,836 and expenses totaled \$6,702 for the year ending June 30, 2008 resulting in a fund balance of \$134.

BUDGETARY HIGHLIGHTS

The District's revenues were \$190,583 less than budgeted revenues, a variance of 2.35%. The most significant dollar value variance resulted from the District receiving less from local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year.

In spite of the District's budgetary practice, expenditures in the instruction and other expenditures functions exceeded the certified budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$4,912,135, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 0.03% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$218,166.

The original cost of the District's capital assets was \$9,163,702. Governmental funds account for \$9,038,857 with the remainder of \$124,845 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2007 compared to \$84,400 at June 30, 2008. This increase was due to the start of the baseball lighting project at the high school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 26,300	26,300	0	0	26,300	26,300	0.00%
Construction in progress	84,400	0	0	0	84,400	0	100.00%
Buildings	4,497,828	4,522,199	0	0	4,497,828	4,522,199	-0.54%
Land improvements	80,476	84,947	0	0	80,476	84,947	-5.56%
Machinery and equipment	206,526	259,181	16,605	20,794	223,131	279,975	-25.48%
Total	<u>\$ 4,895,530</u>	<u>4,892,627</u>	<u>16,605</u>	<u>20,794</u>	<u>4,912,135</u>	<u>4,913,421</u>	<u>-0.03%</u>

Long-Term Debt

At June 30, 2008, the District had \$1,201,330 in general obligation and other long-term debt outstanding. This represents a decrease of 16.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had general obligation bonds payable of \$950,000 at June 30, 2008.

The District had compensated absences payable of \$22,550 from the General Fund at June 30, 2008.

The District had early retirement payable of \$228,780 from the Special Revenue, Management Levy Fund at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 950,000	1,400,000	-32.1%
Compensated absences	22,550	19,070	18.2%
Early retirement	228,780	14,858	1439.8%
Totals	<u>\$ 1,201,330</u>	<u>1,433,928</u>	<u>-16.2%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- During fiscal year 2009, the District will begin to make cuts in our support staff and continue to do so during fiscal year 2010 without hurting the quality of programs offered by the District.
- The District has some early retirements for fiscal year 2009 and through attrition some positions will not be hired back. The same scenario will carry over into fiscal year 2010.

-
- If enrollment numbers continue to decline, this will negatively impact the financial health of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Vanter, Business Manager, Starmont Community School District, 3202 40th Street, Arlington, Iowa, 50606.

BASIC FINANCIAL STATEMENTS

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 2,179,153	0	2,179,153
Other	1,112,678	40,828	1,153,506
Receivables:			
Property tax:			
Delinquent	10,115	0	10,115
Succeeding year	2,753,145	0	2,753,145
Accounts	262,005	1,583	263,588
Accrued ISCAP interest (Note 4)	13,332	0	13,332
Inventories	0	9,253	9,253
Capital assets, net of accumulated depreciation (Note 5)	4,895,530	16,605	4,912,135
Total Assets	11,225,958	68,269	11,294,227
Liabilities			
Accounts payable	636,353	965	637,318
Salaries and benefits payable	146,071	17,581	163,652
ISCAP warrants payable (Note 4)	2,166,000	0	2,166,000
ISCAP accrued interest payable (Note 4)	15,322	0	15,322
ISCAP unamortized premium	36,159	0	36,159
Accrued interest payable	2,079	0	2,079
Deferred revenue:			
Succeeding year property tax	2,753,145	0	2,753,145
Unearned revenue	0	4,188	4,188
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	470,000	0	470,000
Early retirement payable	83,429	0	83,429
Compensated absences	22,550	0	22,550
Portion due after one year:			
General obligation bonds payable	480,000	0	480,000
Early retirement payable	145,351	0	145,351
Total Liabilities	6,956,459	22,734	6,979,193
Net Assets			
Invested in capital assets, net of related debt	3,945,530	16,605	3,962,135
Restricted for:			
Salary improvement program	1,997	0	1,997
Additional teacher contract day	801	0	801
Market factor	5,618	0	5,618
Phase I	19,566	0	19,566
Professional development	2,127		
Voluntary preschool program	9,649	0	9,649
Market factor incentives	5,525	0	5,525
Physical plant and equipment levy	109,180	0	109,180
Capital projects	409,172	0	409,172
Debt service	106,970	0	106,970
Other special revenue purposes	37,604	0	37,604
Unrestricted	(384,240)	28,930	(353,183)
Total Net Assets	\$ 4,269,499	45,535	4,315,034

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,437,110	262,602	662,626	(2,511,882)	0	(2,511,882)
Special instruction	947,664	99,401	37,512	(810,751)	0	(810,751)
Other instruction	963,782	140,446	40	(823,296)	0	(823,296)
	5,348,556	502,449	700,178	(4,145,929)	0	(4,145,929)
Support services:						
Student services	176,021	0	0	(176,021)	0	(176,021)
Instructional staff services	53,547	0	0	(53,547)	0	(53,547)
Administration services	954,018	0	0	(954,018)	0	(954,018)
Operation and maintenance of plant services	553,894	0	0	(553,894)	0	(553,894)
Transportation services	236,713	4,917	0	(231,796)	0	(231,796)
	1,974,193	4,917	0	(1,969,276)	0	(1,969,276)
Other expenditures:						
Facilities acquisitions	170,009	0	25,000	(145,009)	0	(145,009)
Long-term debt interest	36,140	0	0	(36,140)	0	(36,140)
AEA flowthrough	261,316	0	261,316	0	0	0
Depreciation(unallocated)*	155,629	0	0	(155,629)	0	(155,629)
	623,094	0	286,316	(336,778)	0	(336,778)
Total governmental activities	7,945,843	507,366	986,494	(6,451,983)	0	(6,451,983)
Business-Type activities:						
Instructional programs:						
Daycare services						
Regular instruction	6,702	6,836	0	0	134	134
Non-instructional programs:						
Support services:						
Operation and maintenance						
of plant services						
	4,341	0	0	0	(4,341)	(4,341)
Nutrition services	324,620	177,155	158,089	0	10,624	10,624
Total nutrition services	328,961	177,155	158,089	0	6,283	6,283
Total business-type activities	335,663	183,991	158,089	0	6,417	6,417
Total	\$ 8,281,506	691,357	1,144,583	(6,451,983)	6,417	(6,445,566)
General Revenues:						
Property tax levied for:						
General purposes						
				\$ 2,258,705	0	2,258,705
Debt service						
				387,235	0	387,235
Capital outlay						
				60,008	0	60,008
Local option sales and services tax						
				410,921	0	410,921
Unrestricted state grants						
				2,855,242	0	2,855,242
Unrestricted investment earnings						
				81,153	277	81,430
Other general revenues						
				39,406	0	39,406
Total general revenues				6,092,670	277	6,092,947
Changes in net assets				(359,313)	6,694	(352,619)
Net assets beginning of year				4,628,812	38,841	4,667,653
Net assets end of year				\$ 4,269,499	45,535	4,315,034

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 2,179,153	0	0	2,179,153
Other	387,927	298,854	425,897	1,112,678
Receivables:				
Property tax:				
Delinquent	0	0	10,115	10,115
Succeeding year	2,331,912	0	421,233	2,753,145
Accounts	140,915	119,496	1,594	262,005
Accrued ISCAP interest(Note 4)	13,332	0	0	13,332
Total Assets	\$ 5,053,239	418,350	858,839	6,330,428
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 623,172	9,178	4,003	636,353
Salaries and benefits payable	146,071	0	0	146,071
ISCAP warrants payable(Note 4)	2,166,000	0	0	2,166,000
ISCAP accrued interest payable(Note 4)	15,322	0	0	15,322
ISCAP unamortized premium	36,159	0	0	36,159
Deferred revenue:				
Succeeding year property tax	2,331,912	0	421,233	2,753,145
Total liabilities	5,318,636	9,178	425,236	5,753,050
Fund balances:				
Reserved for:				
Salary improvement program	1,997	0	0	1,997
Additional teacher contract day	801	0	0	801
Market factor	5,618	0	0	5,618
Phase I	19,566	0	0	19,566
Voluntary preschool program	9,649	0	0	9,649
Professional development	2,127	0	0	2,127
Market factor incentives	5,525	0	0	5,525
Debt service	0	0	106,970	106,970
Unreserved	(310,680)	409,172	326,633	427,122
Total fund balances	(265,397)	409,172	433,603	577,378
Total Liabilities and Fund Balances	\$ 5,053,239	418,350	858,839	6,330,428

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 16) \$ 577,378

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental funds. 4,895,530

Accrued interest payable on long-term liabilities is not due
and payable in the current period and, therefore, is not
reported as a liability in the governmental funds. (2,079)

Long-term liabilities, including bonds payable, compensated
absences and early retirement, are not due and payable in
the current period and, therefore, are not reported as
liabilities in the governmental funds. (1,201,330)

Net assets of governmental activities (page 14) \$ 4,269,499

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,168,822	410,921	537,126	3,116,869
Tuition	336,016	0	0	336,016
Other	101,970	6,540	197,386	305,896
Intermediate sources	20,482	0	0	20,482
State sources	3,595,897	0	0	3,595,897
Federal sources	186,370	25,000	0	211,370
Total revenues	6,409,557	442,461	734,512	7,586,530
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	3,300,888	0	20,046	3,320,934
Special instruction	947,664	0	0	947,664
Other instruction	772,905	0	194,373	967,278
	5,021,457	0	214,419	5,235,876
Support services:				
Student services	176,021	0	0	176,021
Instructional staff services	53,547	0	0	53,547
Administration services	816,624	0	36,237	852,861
Operation and maintenance of plant services	512,950	0	30,181	543,131
Transportation services	305,762	0	12,281	318,043
	1,864,904	0	78,699	1,943,603
Other expenditures:				
Facilities acquisitions	0	212,997	41,412	254,409
Long-term debt:				
Principal	0	0	450,000	450,000
Interest	0	0	37,130	37,130
AEA flowthrough	261,316	0	0	261,316
	261,316	212,997	528,542	1,002,855
Total expenditures	7,147,677	212,997	821,660	8,182,334
Excess(deficiency)of revenues over(under)expenditures	(738,120)	229,464	(87,148)	(595,804)
Other financing sources(uses):				
Transfers in	0	0	100,000	100,000
Transfers out	0	(100,000)	0	(100,000)
Total other financing sources(uses)	0	(100,000)	100,000	0
Net change in fund balances	(738,120)	129,464	12,852	(595,804)
Fund balance beginning of year	472,723	279,708	420,751	1,173,182
Fund balance end of year	\$ (265,397)	409,172	433,603	577,378

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds(page 18) \$ (595,804)

*Amounts reported for governmental activities in the
 Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 216,880	
Depreciation expense	(213,977)	2,903

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 450,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 990

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ (213,922)	
Compensated absences	(3,480)	(217,402)

Changes in net assets of governmental activities(page 15) \$ (359,313)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	School Nutrition	Day Care	Total
Assets			
Cash and pooled investments	\$ 40,828	0	40,828
Receivables:			
Accounts	1,243	134	1,377
Due from other governments	206	0	206
Inventories	9,253	0	9,253
Capital assets, net of accumulated depreciation (Note 5)	16,605	0	16,605
Total assets	68,135	134	68,269
Liabilities			
Accounts payable	965	0	965
Salaries and benefits payable	17,581	0	17,581
Unearned revenue	4,188	0	4,188
Total liabilities	22,734	0	22,734
Net assets			
Invested in capital assets	16,605	0	16,605
Unrestricted	28,796	134	28,930
Total net assets	\$ 45,401	134	45,535

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 177,155	6,836	183,991
OPERATING EXPENSES:			
Instructional programs:			
Regular instruction:			
Salaries	0	5,572	5,572
Benefits	0	1,081	1,081
Supplies	0	49	49
Total instructional programs	0	6,702	6,702
Support services:			
Operation and maintenance of plant services:			
Services	4,341	0	4,341
Non-instructional programs:			
Food service operations:			
Salaries	109,133	0	109,133
Benefits	14,302	0	14,302
Supplies	196,722	0	196,722
Other	274	0	274
Depreciation	4,189	0	4,189
Total non-instructional programs	324,620	0	324,620
TOTAL OPERATING EXPENSES	328,961	6,702	335,663
OPERATING GAIN(LOSS)	(151,806)	134	(151,672)
NON-OPERATING REVENUES:			
State sources	4,130	0	4,130
Federal sources	153,959	0	153,959
Interest on investments	277	0	277
TOTAL NON-OPERATING REVENUES	158,366	0	158,366
Change in net assets	6,560	134	6,694
Net assets beginning of year	38,841	0	38,841
Net assets end of year	\$ 45,401	134	45,535

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 175,014	0	175,014
Cash received from miscellaneous	3,754	6,702	10,456
Cash payments to employees for services	(123,889)	(6,653)	(130,542)
Cash payments to suppliers for goods or services	(161,286)	(49)	(161,335)
Net cash used in operating activities	(106,407)	0	(106,407)
Cash flows from non-capital financing activities:			
State grants received	4,130	0	4,130
Federal grants received	134,625	0	134,625
Net cash provided by non-capital financing activities	138,755	0	138,755
Cash flows from investing activities:			
Interest on investments	277	0	277
Net increase in cash and cash equivalents	32,625	0	32,625
Cash and cash equivalents at beginning of year	8,203	0	8,203
Cash and cash equivalents at end of year	\$ 40,828	0	40,828
Reconciliation of operating gain(loss) to net cash used in operating activities:			
Operating gain(loss)	\$ (151,806)	134	(151,672)
Adjustments to reconcile operating gain(loss) to net cash used in operating activities:			
Commodities consumed	19,128	0	19,128
Depreciation	4,189	0	4,189
Decrease in inventories	2,817	0	2,817
Decrease(Increase) in accounts receivable	1,813	(134)	1,679
Increase in accounts payable	525	0	525
Increase in salaries and benefits payable	17,127	0	17,127
Decrease in unearned revenue	(200)	0	(200)
Net cash used in operating activities	\$ (106,407)	0	(106,407)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 40,828	0	40,828

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$19,128.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
Assets		
Cash and pooled investments	\$	75,662
Accounts receivable		124
Total Assets		<u>75,786</u>
Liabilities		<u>0</u>
Net Assets		
Reserved for scholarships	\$	<u>75,786</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Contributions	<u>\$ 1,133</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u> 2,274</u>
Change in net assets	(1,141)
Net assets beginning of year	<u> 76,927</u>
Net assets end of year	<u><u> \$ 75,786</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

STARMONT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Starmont Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Arlington, Strawberry Point and Lamont, Iowa, and the predominate agricultural territory in Buchanan, Fayette, Delaware and Clayton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Starmont Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Starmont Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buchanan, Fayette, Delaware and Clayton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount or earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by

the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured or registered in the District's name.

At June 30, 2008, the District had investments in certificates of deposit, stated at fair value, maturing over a year as follows:

	<u>Fair Value</u>
Certificates of deposit	<u>\$ 69,829</u>

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 100,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2007-08B	1/23/2008	1/23/2009	\$ 913,925	12,853	911,000	14,953
2008-09A	6/26/008	6/25/2009	1,265,228	479	1,255,000	369
Total			<u>\$ 2,179,153</u>	<u>13,332</u>	<u>2,166,000</u>	<u>15,322</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is

outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows.

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08B	\$ 0	250,000	250,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 26,300	0	0	26,300
Construction in progress	0	84,400	0	84,400
Total capital assets not being depreciated	26,300	84,400	0	110,700
Capital assets being depreciated:				
Buildings	7,431,114	126,787	0	7,557,901
Land improvements	169,418	0	0	169,418
Machinery and equipment	1,195,145	5,693	0	1,200,838
Total capital assets being depreciated	8,795,677	132,480	0	8,928,157
Less accumulated depreciation for:				
Buildings	2,908,915	151,158	0	3,060,073
Land improvements	84,471	4,471	0	88,942
Machinery and equipment	935,964	58,348	0	994,312
Total accumulated depreciation	3,929,350	213,977	0	4,143,327
Total capital assets being depreciated, net	4,866,327	(81,497)	0	4,784,830
Governmental activities capital assets, net	\$ 4,892,627	2,903	0	4,895,530

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 124,845	0	0	124,845
Less accumulated depreciation	104,051	4,189	0	108,240
Business-type activities capital assets, net	<u>\$ 20,794</u>	<u>(4,189)</u>	<u>0</u>	<u>16,605</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,431
Other	2,197
Support services:	
Operation and maintenance of plant	10,233
Transportation	44,487
	<u>58,348</u>
Unallocated depreciation	<u>155,629</u>
Total governmental activities depreciation expense	<u>\$ 213,977</u>
Business-type activities:	
Food service operations	<u>\$ 4,189</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,400,000	0	450,000	950,000	470,000
Compensated absences	19,070	22,550	19,070	22,550	22,550
Early retirement	14,858	236,210	22,288	228,780	83,429
Total	<u>\$ 1,433,928</u>	<u>258,760</u>	<u>491,358</u>	<u>1,201,330</u>	<u>575,979</u>

General Obligation Bonds Payable

Details of the Districts June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue dated March 1, 2003			
	Interest Rates	Principal	Interest	Total
2009	2.95	% \$ 470,000	46,515	516,515
2010	3.25	480,000	20,665	500,665
Total		\$ 950,000	67,180	1,017,180

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each employee is equal to a percentage of years eligible times the employees salary received by the retiree equal to 70 days pay. Early retirement benefits paid during the year ended June 30, 2008, totaled \$22,288.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$252,137, \$229,220 and \$215,383 respectively, equal to the required contributions for each year.

(8) Risk Management

Starmont Community School District is a member in the Northeast Iowa Schools Insurance Trust, and Iowa Code Chapter 28E organization. The Northeast Iowa Schools Insurance Trust (NEIST) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. NEIST was formed in July 1999 for the purpose of managing and funding employee benefits. NEIST provides coverage and protection in the following categories: medical, dental, LTD, and life insurance.

Each member's contributions to NEIST funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, NEIST's general and

administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to NEIST for the year ended June 30, 2008 was \$570,801.

Payments from participating members are the sole source for paying claims and establishing reserves for the NEIST self-funded programs. Stop loss insurance is purchased by NEIST to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the District's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. NEIST will pay claims incurred before the termination date.

Starmont Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$261,316 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the instruction and other expenditures functions exceeded the amounts budgeted.

(11) Deficit Fund Balance/Unrestricted Net Assets

The District has a deficit unreserved fund balance in the General Fund of \$310,680. The District also had a deficit unrestricted net assets balance in the governmental activities of \$384,240.

REQUIRED SUPPLEMENTARY INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,758,781	184,268	3,943,049	4,149,795	4,149,795	(206,746)
Intermediate sources	20,482	0	20,482	107,200	107,200	(86,718)
State sources	3,595,897	4,130	3,600,027	3,516,975	3,516,975	83,052
Federal sources	211,370	153,959	365,329	345,500	345,500	19,829
Total revenues	7,586,530	342,357	7,928,887	8,119,470	8,119,470	(190,583)
Expenditures:						
Instruction	5,235,876	6,702	5,242,578	4,713,702	4,713,702	(528,876)
Support services	1,943,603	4,341	1,947,944	2,800,681	2,800,681	852,737
Non-instructional programs	0	324,620	324,620	400,000	400,000	75,380
Other expenditures	1,002,855	0	1,002,855	758,694	758,694	(244,161)
Total expenditures	8,182,334	335,663	8,517,997	8,673,077	8,673,077	155,080
Excess(deficiency) of revenues over(under) expenditures	(595,804)	6,694	(589,110)	(553,607)	(553,607)	(35,503)
Balance beginning of year	1,173,182	38,841	1,212,023	1,249,963	1,249,963	(37,940)
Balance end of year	\$ 577,378	45,535	622,913	696,356	696,356	(73,443)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the Cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the instruction and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

STARMONT COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	
Assets							
Cash and pooled investments	\$ 178,156	15,012	108,050	25,001	326,219	99,678	425,897
Receivables:							
Property tax:							
Current year delinquent	1,693	0	1,130	0	2,823	7,292	10,115
Succeeding year	100,000	0	60,391	0	160,391	260,842	421,233
Accounts	0	1,346	0	248	1,594	0	1,594
Total Assets	\$ 279,849	16,358	169,571	25,249	491,027	367,812	858,839
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 0	4,003	0	0	4,003	0	4,003
Deferred revenue:							
Succeeding year property tax	100,000	0	60,391	0	160,391	260,842	421,233
Total liabilities	100,000	4,003	60,391	0	164,394	260,842	425,236
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	106,970	106,970
Unreserved	179,849	12,355	109,180	25,249	326,633	0	326,633
Total fund balances	179,849	12,355	109,180	25,249	326,633	106,970	433,603
Total Liabilities and Fund Balances	\$ 279,849	16,358	169,571	25,249	491,027	367,812	858,839

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT:

STARMONT COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 89,883	0	60,008	0	149,891	387,235	537,126
Other	0	177,785	3,075	14,578	195,438	1,948	197,386
TOTAL REVENUES	89,883	177,785	63,083	14,578	345,329	389,183	734,512
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	20,046	0	0	0	20,046	0	20,046
Other instruction	0	182,285	0	12,088	194,373	0	194,373
Support services:							
Administration services	36,237	0	0	0	36,237	0	36,237
Operation and maintenance of plant services	30,181	0	0	0	30,181	0	30,181
Student transportation	10,281	0	2,000	0	12,281	0	12,281
Other expenditures:							
Facilities acquisitions	0	0	41,412	0	41,412	0	41,412
Long-term debt:					0		
Principal	0	0	0	0	0	450,000	450,000
Interest	0	0	0	0	0	37,130	37,130
TOTAL EXPENDITURES	96,745	182,285	43,412	12,088	334,530	487,130	821,660
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,862)	(4,500)	19,671	2,490	10,799	(97,947)	(87,148)
OTHER FINANCING SOURCES:							
Transfers in	0	0	0	0	0	100,000	100,000
NET CHANGE IN FUND BALANCES	(6,862)	(4,500)	19,671	2,490	10,799	2,053	12,852
FUND BALANCE BEGINNING OF YEAR	186,711	16,855	89,509	22,759	315,834	104,917	420,751
FUND BALANCE END OF YEAR	\$ 179,849	12,355	109,180	25,249	326,633	106,970	433,603

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ (38,803)	72,601	75,367	(41,569)
Clubs/Organizations	(4,837)	52,913	48,674	(598)
General Activity	12,871	8,961	8,404	13,428
Classes	7,872	7,445	9,479	5,838
Elementary	21,632	4,027	4,203	21,456
Middle School	18,120	31,838	36,158	13,800
Total	\$ 16,855	177,785	182,285	12,355

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STARMONT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		Years Ended June 30,				
		2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax		\$ 3,116,869	3,123,692	3,237,183	3,223,515	3,112,323
Tuition		336,016	304,705	264,920	267,575	281,318
Other		305,896	388,894	330,419	305,444	305,555
Intermediate sources		20,482	16,217	30,836	33,208	81,332
State sources		3,595,897	3,249,708	3,320,090	3,304,236	3,318,245
Federal sources		211,370	286,433	450,135	412,781	624,760
Total		\$ 7,586,530	7,369,649	7,633,583	7,546,759	7,723,533
Expenditures:						
Current:						
Instruction:						
Regular instruction		\$ 3,320,934	3,210,255	3,042,684	2,848,767	2,929,285
Special instruction		947,664	958,126	877,718	846,947	1,092,102
Other instruction		967,278	897,360	868,440	864,244	731,187
Support services:						
Student services		176,021	166,603	157,106	167,889	140,093
Instructional staff services		53,547	68,584	104,580	102,330	98,399
Administration services		852,861	988,136	731,733	716,653	623,621
Operation and maintenance of plant services		543,131	550,559	572,437	839,606	513,752
Transportation services		318,043	411,636	339,875	25,189	363,704
Other expenditures:						
Facilities acquisitions		254,409	312,778	475,096	150,406	29,386
Long-term debt:						
Principal		450,000	440,000	430,000	425,000	400,000
Interest		37,130	47,918	57,080	65,945	93,401
AEA flow-through		261,316	255,118	248,778	247,899	252,357
Total		\$ 8,182,334	8,307,073	7,905,527	7,300,875	7,267,287

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Starmont Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Starmont Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Starmont Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Starmont Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Starmont Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Starmont Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Starmont Community School District's financial statements that is more than inconsequential will not be prevented or detected by Starmont Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Starmont Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Starmont Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Starmont Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Starmont Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Starmont Community School District and other parties to whom Starmont Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Starmont Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2009

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-08 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District is making a conscious effort to get the correct project codes posted to the specific grants.

Conclusion - Response accepted.

- I-C-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

There is an interest account in the Student Activity Fund. Moneys in this account should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

Response - The District will allocate interest on an annual basis in the future.

Conclusion - Response accepted.

- I-D-08 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District should refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups. The costs associated with the clothing should be reimbursed from the employee or added to their W-2's as additional compensation.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing for coaches and other District employees in lieu of using public funds.

Response - The coaches have been informed about the purchasing of clothing and that it will no longer be acceptable to do this through the Activity Fund.

Conclusion - Response accepted.

- I-E-08 Payroll Procedures - We noted during our audit that the District pays employees for extra duties performed during athletic events such as scorekeeping; however payments for these extra duties are not run through the District's payroll system.

Recommendation - The District should run the payments for extra duties through the District's payroll system so the wages can be subjected to the appropriate payroll taxes.

Response - The District will run all extra duty pay through the payroll system from now on.

Conclusion - Response accepted.

STARMONT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008, exceeded the certified budget amounts in the instruction and other expenditures functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The District will monitor the budget more closely and amend the budget each year when necessary.

Conclusion - Response accepted.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - No business transactions between the District and District Officials or employees were noted.

II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students, Line 1, was understated by 2 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition -The District has a deficit unreserved fund balance of \$310,680 in the General Fund. The District also has negative accounts within the Special Revenue, Student Activity Fund. The District also had a deficit unrestricted net assets balance in the governmental activities of \$384,240.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The District will monitor this more closely and look for alternatives to get this corrected.

Conclusion - Response accepted.